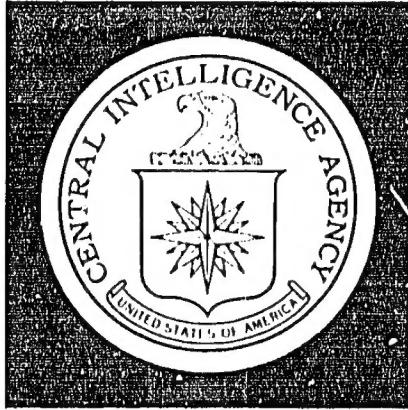


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SOUTH VIETNAM: President Thieu and his advisers are concerned over developing tensions among the population and the possibility that events might get out of control.

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Vice President Ky's inflammatory remarks are causing uneasiness among the people and that Ky is trying to throw the country into turmoil. [redacted]

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the price of rice had risen by about 25 percent in just a few days, and [redacted] this was always a certain indicator of apprehension among the populace. [redacted]

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[redacted] the government was in a quandary over what steps to take, since any moves against Ky would only exacerbate the situation.

According to press reports, the President met on 7 September with all his top generals; if true, this would be the second such gathering in recent weeks. Repeated consultations with these leaders would bring them more actively into the political scene than at any time since 1968. This would open the door for a new period of political maneuvering in the military establishment. (SECRET NO FOREIGN DISSEM)

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EUROPEAN COMMUNITIES - SWEDEN: Sweden has again asked for a close economic relationship with the European Communities.

The proposed arrangements would include a customs union with a common external tariff, Swedish alignment with EC commercial policies, and coordination of trade relations with third countries. Sweden would accept provisions of the European Coal and Steel Community and EURATOM Treaties and would coordinate its economic policies with regard to certain agricultural products. Additional cooperation is also foreseen in industrial policy, science, technology, energy and the environment.

The Swedish request refers to the possibility of some form of cooperation between the Riksdag and the European Parliament but is aimed specifically at only economic considerations. Sweden still maintains that it will not enter into "political" agreements that might hinder its traditional foreign policy of neutrality. Moreover, Sweden stresses that its position would not interfere with the EC decision-making process as the customs union would set up only "an organ of cooperation" functioning as an arena for the exchange of positions and having no role in policy making. Stockholm hopes that this position will insure greater economic advantages for both parties without political entanglements that would cause a domestic political storm in Sweden.

This approach is much more extensive in nature than the EC had heretofore envisioned. While concern over its effects on political development of the Community will be raised, the proposal will be considered favorably by at least some members of the EC. (CONFIDENTIAL NO FOREIGN DISSEM)

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HONDURAS: It is becoming increasingly apparent that President Cruz' days in office are numbered.

Many sectors of Honduran society are expressing pessimism about the President's ability to control student violence, and the Chief of the Armed Forces, General Oswaldo Lopez, is considering means of replacing him. While Lopez denies any plans for a coup, he recently outlined possible short-term constitutional solutions to the US Ambassador. One would have President Cruz resign because of "ill health." If this failed, pressure could be exerted through a congressional vote of "no confidence," and he would be replaced by one of the three vice presidents. Rene Bendana, a physician, was the one mentioned by Lopez [redacted] and therefore is apparently Lopez' choice.

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Although Lopez is the author of the unity pact on which the present coalition government is based, he has frequently expressed his distrust for civilian politicians and his belief that they are incapable of governing. Lopez, however, personally selected Cruz as the National Party Presidential candidate, even though his capabilities generally were recognized as limited. A more "malleable" president would increase the influence of the cabinet and legislature and, therefore, of the parties, especially the National Party, which is controlled by Ricardo Zuniga, the powerful adviser to Lopez during the latter's presidency.

Lopez clearly feels that he is the only person capable of governing the country and intends to return to power eventually. He may be sincere in his stated preference for a constitutional solution, especially one that would give him additional indirect control of the government, but the stage also is set for any move he decides to make, including a direct military take-over. (SECRET)

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INDONESIA: President Suharto has made changes in the cabinet in order to emphasize further the government's interest in economic development.

A new cabinet portfolio has been created for development planning headed by Dr. Widjojo, who will continue to serve concurrently as head of the National Planning Board. Three other economists have been appointed to the cabinet; two replaced ineffective military men, and the other, an ailing civilian politician. These changes will tend to give a more technocratic cast to the cabinet, and enhance the prestige of the economists within the government. The basic power balance in favor of the military remains unaltered, however. The role of the political parties in the cabinet has been reduced to the bare minimum; each of the three largest has but a single representative and that in a powerless role.

One other potentially important change is the elevation of General Panggabean, the deputy commander of the armed forces to ministerial rank as assistant to Suharto for security affairs. This seems to clarify Panggabean's position as the second-ranking military man after Suharto. (CONFIDENTIAL)

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KENYA: Former vice president Oginga Odinga, who broke with President Kenyatta in 1966, has decided to rejoin Kenyatta's Kenya African National Union (KANU).

Odinga has announced that he intends to run as a member of KANU in local elections early next year. The longtime leftist was detained by the government from October 1969 to March 1971 on charges of instigating antigovernment rioting and appears to have lost some of his political influence. Nevertheless, he is still a prominent national figure and may be able to rebuild political support, particularly among his fellow Luo tribesmen and other tribal groups dissatisfied with the dominance of Kenyatta's Kikuyus.

Odinga apparently retains high political aspirations, and has appealed to all former members of his banned Kenya People's Union to join KANU. The former vice president probably hopes that by working within KANU he will be able to make major gains once the aging Kenyatta passes from the scene. (SECRET NO FOREIGN DISSEM)

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NOTES

COMMUNIST CHINA - US: Chinese officials have confirmed earlier reports that Peking will invite a small number of US businessmen to the Canton Trade Fair this October.

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the Chinese Embassy in Ottawa will grant visas for the fair to three American representatives on 15 September. Although a Chinese spokesman in Hong Kong said that Peking will only welcome representatives of small US firms,

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The Chinese still have not clarified whether the businessmen will be allowed to conduct transactions at the fair or will attend only as observers.
(CONFIDENTIAL NO FOREIGN DISSEM)

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SWEDEN: In the midst of one of its worst post-war recessions, the government reduced the official discount rate yesterday by 0.5 percent to 5.5 percent. This is the third time this year that the central bank has reduced the rate in an effort to stimulate Sweden's lagging industrial sector. During the second quarter, normally a seasonal high, this sector suffered an unusual decline, due primarily to a weakening of demand. Utilization of productive capacity has fallen to the depressed 1967-68 level. Unemployment is growing and could soon reach a postwar high unless the economy responds to the government's efforts. (CONFIDENTIAL)

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PERU: The government apparently hopes to attract foreign investment by a new law exempting oil exploration machinery and materials from import duties and other charges for eight years. Lima is negotiating with a large number of foreign oil companies concerning exploration and development rights in the Eastern jungle region. Occidental Petroleum Corporation already has signed a 35-year contract, including up to seven years for exploration, under which it expects to spend \$50 million searching for oil in the Peruvian-Ecuadorean border area. (CONFIDENTIAL)

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JORDAN-FEDAYEEN: The "reconciliation" talks in Jidda--originally scheduled for 6 September--have yet to get under way. After days of wrangling over whether or not to attend, the Palestine Liberation Organization Executive Committee on Wednesday announced its decision to send delegates, although three radical members denounced the move. Meanwhile, the Jordanian delegation, which had been cooling its heels in Saudi Arabia for two days, returned to Amman. The fedayeen have not indicated when they might be prepared to attend talks, but the Jordanians-

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[redacted] will probably return if the fedayeen appear. (CONFIDENTIAL)

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NIGERIA: Inflationary pressures appear to be subsiding in Nigeria for the first time since the end of the civil war. An increased supply of goods from liberalized imports and from the current harvest, restrictions on commercial credit, and an apparent budget surplus have reduced the inflationary pressure. Prices of staple foods such as ground cassava and beans that normally level off at this time of year, have registered a modest decline in price after more than doubling in the year ending this summer. Recommendations for a cost-of-living salary and wage increase currently are being considered by the military government, however. Despite the improved situation Lagos may find it hard to hold back increases because public memories of post-war inflation are still strong. (CONFIDENTIAL)

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